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VIEWPOINT

Pension systems do not suffer from ageing or lack of home-ownership but from financialisation

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In this article I argue that (1) a house is a substitute for pension savings at the individual level; (2) housing wealth is not wealth on the aggregate level; (3) ageing is not the main problem for pension systems, instead it is financialisation; and (4) policies that link pensions and housing may serve financial actors.

Keywords: pensions; housing; financialisation

Introduction

A policy-link is frequently made between housing and pensions. There is an economic link at the individual-level indeed. Delfani, De Deken, and Dewilde (2015, p. 280) empirically establish that 'housing systems determine whether income-poverty turns into deprivation.' Since the post-Fordist period, housing is increasingly commodified and there has been an increasing interest in housing as a financial asset (Aalbers, 2015). The framing of (individual) house wealth as 'asset-based welfare' that can be used to meet future pension needs is however problematic according to Searle and McCollum (2014, p. 337–338) for 'asset-based welfare relies on rising house prices in order for sufficient equity to be accumulated to cover care costs in later life. But through higher house prices those costs will be passed down to those trying to enter the housing welfare system.'

Delfani et al. (2015) and Searle and McCollum (2014) are both convincing but do not fully convey what I belief to be the most important development in the pension- and housing-domains. During the last decades, pensions and housing have been penetrated by the financial sector, which finances both debt-financed housing construction by the real estate sector as well as the debt-financed purchase by households of houses. In the pension domain, tax-financed collective arrangements have given way to individual accounts, arranged by banks and insurance companies. This financialisation is hinted at by Searle and McCollum, but they do not

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take it fully into account. This seems to be why they ultimately underwrite, although somewhat hesitantly, the claim that ageing necessitates pension cuts.

The remainder of this viewpoint article is organised in four interrelated propositions: (1) for individuals a house may serve as a substitute for pension savings; (2) housing wealth is not wealth on the aggregate level; (3) ageing is not a problem for pension systems, instead, financialisation is; and (4) linking pensions and housing is oftentimes a political action of interested parties to further their own goals.

Housing as a substitute for pensions

A house is a durable consumption good which can be understood as a form of (pension) saving. House-owners do not pay rents, thereby lowering their monthly financial obligations. Obviously, this only applies to people who outright own their house. Searle and McCollum (2014, p. 333) note that in the UK 'among 2.6 million people with interest-only loans due to mature in the next 30 years, nearly half are estimated to have insufficient funds set aside to pay off the mortgage, whilst 10% do not have any final repayment strategy.' A debt-financed house is therefore ultimately a debt-financed-real estate speculation.

Housing wealth is not wealth on the *aggregate* level

Using individual-level data for Belgium, Germany, Ireland and the Netherlands, Delfani et al. (2015) find that home-ownership reduces poverty at the individual level. This suggests that increasing home-ownership reduces poverty tout court. However, housing wealth is not wealth on the *aggregate* level. Housing wealth is directly linked to house prices. Rising house prices are advantageous for individual house owners and for banks, who see the value of their collateral increase. They are however disadvantageous for (potential) house buyers and for renters insofar as rental prices co-move with house prices. Rising prices redistribute and do not add to total production and economic growth. Fluctuations in house-prices do not change the houses themselves nor the stock of houses. In Marxist terms, the exchange value changes, the use value does not.

This is not to say that moving house prices are absent macro-economic effects. Rising house-prices are often part of and cheer on housing bubbles, which – via the wealth effect (the ATM as Searle and McCollum call it) – can spur aggregate spending temporally and thereby economic growth. Higher prices are also profitable for several sectors (brokers, banks, advertisement, etc.), whereas losses are scattered around, manifesting themselves only later – when the bubble bursts.

Changing house prices lead to unpredictable, unfair and inefficient redistribution of wealth. Redistribution is inefficient as higher prices can seldom, if ever, be subscribed to individual merits of home-owners. House prices are determined by interest rates, financial regulation (borrowing regulation), fiscal stimuli, herd

behaviour of buyers and the surroundings of the house (schools, parks, roads, etc.), all out of individual control. Profits and losses due to changes in house values are therefore best to be socialised, for example, by taxing realised profits of house sales (which would translate into negative tax income in the case of losses).

Ageing is not a problem for pension systems, financialisation is

The motivation to consider pension reforms in the first place is ageing. Searle and McCollum (2014) conclude that due to 'rapid' ageing it 'is perhaps inevitable, given the strain placed on the public provision of pensions, health care and other welfare services, that these additional costs are increasingly met through private means in the longer term'(p. 337). Notwithstanding their critical analysis, they thus (partly) underwrite the policy-consensus that has emerged since the World Bank (1994) called for 'reforms' to address ageing. The consensus is that ageing necessitates pension reform – and using housing as pension asset may be one such reform. The result of this consensus is that pension systems have been financialised, investment risks have been shifted to employees, the retirement-age has been increased and benefits have been cut. To legitimise these policies, there has been a 'shift in political rhetoric away from equality towards the issue of equity', as Searle and McCollum (p. 326) themselves note. Ageing and a supposed generational conflict have been the main narrative surrounding so called reforms.

Whatever the merits of the World Bank-induced policies may be, they are disadvantaging labour and (thereby) helping capital. Ageing has effectively served as a pretext to weaken labour-protection, without asking anything from corporations or asset managers. Employer-sponsored Defined Benefit-pension plans have turned out to be a scam. As Barr states in Bovenberg et al. (2012, p. 101): 'a cynical view is that in corporate plans the firm creams the surplus in good times and reneges on pension promises in bad times.' Costs of asset management – not ageing – are depleting pensions. In the Netherlands, for example, total annual costs of pension funds equal 6.3 billion euro, which is 19.9% of total contributions. In a process of financialisation (higher costs; higher investment risks; outsourcing by pension funds), the financial sector has high-jacked pension assets, without bearing any of the risks.

Linking pensions and housing is a political action

Even if housing wealth is not wealth and even if financialisation is the real problem, it does not follow per se that linking pensions and housing is a bad idea. And indeed it need not be, but the Devil is in the details here. For one thing, a similar political dynamic of financialisation has been present in the realm of housing. Mortgages are highly profitable for banks and even more so if banks securitise them and sell them off. The political economy of housing is characterised by Aalbers and Engelen

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(2015) as follows: 'owner-occupied housing has rapidly increased during the rise of securitised banking, i.e. since the late 1970s/1980s. (…) this has led to a parallel rise of private indebtedness and has increased the size of banks' balance sheets'. The increasing balance sheets have made banks fragile. Households as well depend more and more on rising house-prices to avoid being 'under water.' The result is that 'short-term economic growth and political popularity are prioritised over a more sustainable and universal model of housing-based welfare' (Searle and McCollum, 2014, p. 334). Thus, 'governments face pressure to maintain high house prices' (Searle and McCollum, 2014, p. 334).

Propping up prices by expanding the number of house-'owners' does not suffice as house-prices are generally at pre-2008 levels and banks remain vulnerable to default-risks and deteriorating collateral. In the Netherlands, banks are, therefore, campaigning for the possibility for individuals to pay-off their mortgage debt with their pension claims. This is convenient for banks and for individual households, it indeed makes sense to do away with the mix of saving (for pensions) on the one hand and borrowing (to 'buy' a house) on the other. Moving assets around from pension funds to banks is, however, not a solution for financialisation that is going on in both realms. Pensions and housing – as Delfani et al. (2015) point out – have been commodified. As such, these realms are connected in that they are both realms of inward-expanding capital. They are therefore connected on the political level, but not so much on the policy-level. Any nexus on the policy-level between housing and pensions should be viewed with suspicion. In the aforementioned Dutch case of banks lobbying to move pension assets their way, it should be understood as a politically constructed link serving the financial sector.

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Conclusion

Home-ownership might be a good idea for individuals but is not a collective solution to the pension problem. The pension problem in turn is not caused by ageing. Here, I disagree with Searle and McCollum (2014: p. 337): 'many countries are confronting the thorny dilemma of how to fund the welfare needs of a rapidly ageing population.' Surging government deficits have been the direct result of bank rescues by the state. Within the pension and housing-domain, financialisation is more important than ageing. The real problems are the huge tax-breaks for debt-financed homeownership, ballooning pension asset management costs and state guarantees for banks that securitise mortgages – only to sell them to pension funds. Those are problems that can only be solved at the collective, i.e. political level.

Disclosure statement

No potential conflict of interest was reported by the author.

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